36 TOPICS IN LONG-TERM LIABILITIES & EQUITY

1. Which of the following is least likely an objective of the IAS 19 disclosures regarding defined benefit plans?
   (A) Explain the characteristics and risks of the firm's defined benefit plan.
   (B) Identify amounts in the financial statements relating to defined benefit plans.
   (C) Describe how defined benefit plans affect amounts, timings, and uncertainties relating to future net income.

2. The least likely reason for a corporation to lease rather than buy a fixed asset is to:
   (A) benefit from appreciation in the asset's value.
   (B) conserve cash at lease inception.
   (C) decrease its financing costs.

3. ABC Company leases manufacturing equipment for five years with annual payments of $20,000. The company will return the equipment to the lessor at the end of the lease. The term of the lease is equal to the equipment's useful life. Under U.S. GAAP, the company will:
   (A) report the lease as an operating lease.
   (B) record a right-of-use asset on the balance sheet.
   (C) recognize an amortization expense equal to the principal repayment each period.

4. A lessor who enters into a finance lease is least likely to:
   (A) add an asset to her balance sheet.
   (B) amortize a receivable.
   (C) record a profit.

5. The difference between the fair value of a defined benefit pension plan's assets and its estimated benefit obligation is recognized:
   (A) as an actuarial adjustment in other comprehensive income.
   (B) on the balance sheet as a net pension asset or liability.
   (C) on the income statement as pension expense.

6. For an operating lease, the lessor must disclose:
   (A) interest recognized in the income statement relating to the lease receivable asset.
   (B) impairments of the leased asset.
   (C) selling profit or loss on derecognition of the leased asset.

7. For an operating lease, the leased physical asset appears on the balance sheet of:
   (A) neither the lessor nor the lessee.
   (B) the lessor.
   (C) the lessee.

8. When a lessee recognizes a balance sheet asset and liability for a new lease:
   (A) the liability is typically greater than the asset.
   (B) the asset and liability are equal.
   (C) the asset is typically greater than the liability.

9. An airline leases a new airplane from its manufacturer for 10 years. For financial reporting, the airline must record an asset and a liability on its balance sheet:
   (A) only if the lease is a finance lease.
   (B) only if the lease is an operating lease.
   (C) regardless of whether the lease is a finance or operating lease.

10. Which of the following regarding employer contributions is least likely a required disclosure under IFRS?
   (A) Expected employer contributions for the next period for defined benefit plans.
   (B) Total employer's contributions expensed in the income statement for defined contribution plans.
   (C) Reasons for changes in employer contributions for defined contribution plans.

11. An employer offers a defined benefit pension plan and a defined contribution pension plan. The employer's balance sheet is most likely to present an asset or liability related to:
   (A) the defined benefit plan.
   (B) the defined contribution plan.
   (C) both of these pension plans.

12. A lease is most likely to be reported as a finance lease when:
   (A) the present value of the lease payments is less than the asset's fair value.
   (B) ownership of the leased asset transfers to the lessee.
   (C) the lessor would otherwise operate the asset in its normal course of business.

13. Under which reporting standards are share-based compensation expensed to the income statement over the vesting period?
    (A) IFRS, but not U.S. GAAP.
    (B) U.S. GAAP, but not IFRS.
    (C) Both IFRS and U.S. GAAP.

14. Which of the following is least likely included in the disclosures for share-based compensation reporting?
    (A) Share price at the reporting date.
    (B) Impact of share-based transactions on the balance sheet.
    (C) How the fair value at the grant date was determined.

15. Which of the following is most accurate regarding financial reporting of an operating lease from a lessor's perspective?
    (A) The lessor recognizes the lease payments as income.
    (B) At lease inception, the lessor removes the asset from the balance sheet.
    (C) The lessor does not record the depreciation expense.

16. When the risks of ownership of an asset are not substantially transferred to the lessee, a lease is most likely to be reported as:
    (A) a finance lease.
    (B) an operating lease.
    (C) an investing lease.

17. A lessor will remove the leased asset from its balance sheet and record interest income from the lease only if the lease is classified as:
    (A) an operating lease.
    (B) a sales-type lease.
    (C) a finance lease.

18. A lessee is most likely to be required to classify a lease as a finance lease if:
    (A) the lease is long term.
    (B) the sum of the lease payments is equal to the value of the leased asset.
    (C) the lessor has no other use for the asset.

19. A lessor retains the leased asset on its balance sheet for:
    (A) neither finance leases not operating leases.
    (B) finance leases, but not operating leases.
    (C) operating leases, but not finance leases.

20. For a lessee, the portion of a lease payment that represents repayment of principal is a cash flow from:
    (A) operations.
    (B) financing.
    (C) investing.

21. For a long-term lease, the amount recorded initially by the lessee as a liability is:
    (A) the present value of the lease payments.
    (B) the total of the lease payments.
    (C) the fair value of the leased asset.

22. Which of the following must both the lessee and lessor disclose under IFRS 16?
    (A) Restrictions and covenants imposed by the lease.
    (B) Interest expense included in the income statement resulting from the lease.
    (C) Maturity analysis of future payments.